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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of Petition of WorldCom, Inc. Pursuant to Section 252(e)(5) of the Communications Act for Expedited Preemption of the Jurisdiction of the Virginia State Corporation Commission Regarding Interconnection Disputes with Verizon Virginia Inc., and for Expedited Arbitration	)	CC Docket No. 00-218
In the Matter of Petition of Cox Virginia Telecom, Inc., etc	)	CC Docket No. 00-249
In the Matter of Petition of AT&T Communications of Virginia Inc., etc	)	CC Docket No.00-251

VERIZON VA'S DIRECT TESTIMONY ON NON-MEDIATION ISSUES (CATEGORIES I AND III THROUGH VII)

INTERCARRIER COMPENSATION

- STEVEN J. PITTERLE
- PETE D'AMICO

JULY 31, 2001

Table of Contents

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, YOUR POSITION WITH VERIZON-VA AND YOUR BUSINESS ADDRESS.

A. My name is Steven J. Pitterle. I am employed by the Verizon Services Group as Director – Negotiations and my business address is 600 Hidden Ridge Drive, Irving, Texas 75038.

My name is Pete D'Amico. I am a S [illegible] Verizon's Interconnection Product Management Group and my business address is 416 7th Avenue, Pittsburgh, Pennsylvania 15219.

Q. PLEASE SUMMARIZE YOUR EXPERIENCE IN THE TELECOMMUNICATIONS INDUSTRY.

A. **(Pitterle)** After graduating from the University of Wisconsin with a Bachelor of Science Degree in Mathematics in 1970, I began working for General Telephone Company of Wisconsin. I held positions of increasing responsibility in Engineering, Service and Regulatory Affairs for GTE before assuming my current position of Negotiations Director in June 1997. (*See Curriculum Vitae* attached hereto as Exhibit IC-1).

(D'Amico) I have a Bachelor of Science in Marketing from Indiana University of Pennsylvania. I have been employed at Verizon and its predecessor companies for 17 years, in positions of increasing responsibility, and have been in product management dealing with interconnection arrangements for the last 11 years. (*See Curriculum Vitae* attached hereto as Exhibit IC-1).

Q. WHAT ARE YOUR RESPONSIBILITIES IN YOUR CURRENT POSITION?

A. **(Pitterle)** My principal responsibility is to oversee Verizon's competitive local exchange carrier ("CLEC") interconnection negotiation activities, as specified by §§ 251 and 252 of the Telecommunications Act of 1996, for defined areas within Verizon. I also assist in the development of policies relating to interconnection matters.

(D'Amico) My responsibilities include development, implementation, and product management of interconnection services.

Q. HAVE YOU EVER TESTIFIED BEFORE?

A. **(Pitterle)** Yes, I have testified in, or submitted testimony for, various interconnection proceedings in New Mexico, Florida, Texas and Wisconsin.

(D'Amico) Yes. I testified in the Focal Arbitrations in the second quarter of 2000 in Pennsylvania and New Jersey and in the Pennsylvania § 271 hearings in the first quarter of this year.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of our testimony is to explain Verizon VA's position on various aspects of Intercarrier Compensation, including call jurisdiction, reciprocal compensation, meet point traffic and tandem rates. Specifically, we will address Issues I-6, V-8, VII-8 and III-5.

II. ISSUE I-5: ISP RECIPROCAL COMPENSATION

Q. PLEASE DESCRIBE THE HISTORY OF THIS ISSUE.

A. Initially, the Petitioners articulated this issue as involving the question whether the CLECs were entitled to recover reciprocal compensation for terminating ISP-bound traffic originated by Verizon VA end users. After the CLECs filed their Petitions for Arbitration, however, the Commission released, on April 27, 2001, its *ISP Remand Order*. In that *Order*, the Commission (i) "affirm[ed] our conclusion in the *Declaratory Ruling* that ISP-bound traffic is not subject to the reciprocal compensation obligations of section 251(b);" (ii) determined "that inter-carrier compensation for ISP-bound traffic is within the jurisdiction of this Commission under Section 201 of the Act;" (iii) established a new federal intercarrier compensation scheme for Internet traffic; and (iv) preempted states from imposing a different scheme in future arbitration proceedings.

After the release of the *ISP Remand Order*, Verizon VA filed a Motion to Dismiss several issues in this proceeding, including Issue I-5. The Commission heard argument on that Motion at a July 10 Status Conference and, thereafter, ordered that the Parties narrow and restate "implementation issues growing out of" Issue I-5. Per the Commission's Order, each CLEC filed a proposed re-statement of the implementation issues.

Q. DID VERIZON VA RESPOND?

A. Yes. In a July 18 letter to the Petitioners as well as a July 19 letter to the Commission, Verizon VA agreed that several of the implementation issues stated by the CLECs were appropriate for arbitration, but only after the Parties had exhausted reasonable efforts to negotiate acceptable language. Therefore, Verizon VA proposed that the ISP Reciprocal Compensation implementation issues be placed on the list of issues to be addressed in supervised mediation.

Q. HAVE THE PARTIES SCHEDULED THE ISSUE FOR SUPERVISED MEDIATION WITH THE COMMISSION?

A. No. The Parties were unable to reach a consensus on whether the issue should be considered in the supervised mediation process. Nonetheless, the Parties have continued their discussions regarding the remaining implementation issues.

Q. HOW DOES VERIZON VA PROPOSE TO ADDRESS THE IMPLEMENTATION OF THE ISP REMAND ORDER IN ITS RESPECTIVE INTERCONNECTION AGREEMENTS?

A. Verizon VA's proposals to address the implementation of the *ISP Remand Order* in its respective interconnection agreements are attached hereto as Exhibit IC-2 and 3. The variations in the contract language reflect changes made as a result on ongoing negotiations with the Petitioners. The attached may be revised as a result of ongoing discussions with Petitioners.

III. ISSUE I-6: THE JURISDICTION OF VFX TRAFFIC

Q. BRIEFLY DESCRIBE THE DISPUTE REGARDING THIS ISSUE.

A. This issue involves a dispute over the jurisdiction of Virtual Foreign Exchange ("VFX") traffic. Specifically, the Parties disagree over the manner in which a VFX call is determined to be local, and thus eligible for reciprocal compensation, or interexchange in nature.

Q. WHAT IS VERIZON VA'S POSITION REGARDING ISSUE I-6?

A. The *physical locations* of the caller and the called party must be used to determine whether a call is eligible for reciprocal compensation under § 251(b)(5) of the Act. The telephone number ("NPA-NXX") that a LEC chooses to assign to its customer cannot determine that issue.

Q. WORLDCOM AND COX PROPOSE THAT THE JURISDICTION OF A CALL BE DETERMINED BY THE NPA-NXXs OF THE CALLING AND CALLED NUMBERS. PLEASE EXPLAIN WHY VERIZON VA OPPOSES THAT PROPOSAL.

A. WorldCom and Cox are trying to legitimize a regulatory gaming scheme, employed by some CLECs, in which interexchange toll telecommunications traffic is disguised as local exchange traffic in order for the CLEC to avoid paying originating access charges and, instead, collect reciprocal compensation. This scheme deprives Verizon VA of legitimate end-user toll revenue or originating access charge revenue that should be assessed on this traffic. In addition, these schemes usually require Verizon VA to bear the costs of transporting the traffic to the CLEC switches. WorldCom and Cox accomplish this scheme by obtaining exchange codes from the North American Numbering Plan Administrator ("NANPA") that they assign to rate centers in which they have no customers or facilities. WorldCom and Cox then assign these telephone numbers to their customers who are located in distant rate centers, usually near or collocated at their switches and outside the local calling area of the originating caller. The CLECs refer to these as VFX numbers or arrangements.

Q. CAN YOU PROVIDE US WITH AN EXAMPLE OF A VFX ARRANGEMENT?

A. Yes. For example, a CLEC might assign a Staunton telephone number to its own customer located at or near the CLEC's switch in Roanoke. The CLEC would do so without establishing a physical interconnection with Verizon VA at the Staunton end office or serving tandem and without actually having any customers located in Staunton. When a Verizon VA customer in Staunton calls that CLEC customer's assigned telephone number, the call looks like a local call to both the Staunton calling party and to the Verizon VA originating switch. In fact, however, it is an interexchange (*i.e.,* toll) call for which Verizon VA would collect tariffed toll charges from its Staunton customer, if Verizon VA handled the entire call, or originating access charges from another carrier, if that carrier completed the call. In the VFX scenario described above, however, Verizon VA incurs the transport costs to complete the call to Roanoke and collects neither toll nor access charges. In fact, Verizon VA would be assessed reciprocal compensation charges, since the call is disguised as a local call.

Q. ARE THERE ANY SOLUTIONS TO THIS PROBLEM THAT VERIZON VA WOULD FIND ACCEPTABLE?

A. Yes. Verizon VA does offer dedicated FX Service in its tariff that would allow the Roanoke CLEC customer to order a direct facility to the Staunton end office, thereby creating, in essence, an extended local loop.

Q. WHAT ARE THE CONSEQUENCES OF THE VFX SCHEME TO VERIZON VA?

A. Using the example above, there are three consequences of this regulatory gaming scheme. First, Verizon VA incurs toll transport costs when it hauls the call to

Roanoke. Verizon VA is unable to bill these toll charges to the originating customer in Staunton for making the interexchange call, because it appears, and is rated, as a local call, covered under the customer's flat rated local service. Verizon VA's switch relies on the NXX assigned the terminating user to rate calls and, therefore, is unable to distinguish between these fake local calls and true local calls.

Second, the CLEC is requiring Verizon VA to transport the interexchange call to the CLEC location in Roanoke, without network interconnection arrangements in place where the CLEC customer, particularly in the case of an ISP, is often either collocated at, or not far from, the CLEC's switch. With the terminating end-user as a CLEC customer, Verizon VA is unable to charge that customer for the cost of interexchange transport, as it would do in a conventional FX arrangement. Thus, Verizon VA ends up absorbing these transport calls with no incremental revenue offset.

Last, but certainly not least, the CLEC then seeks to bill Verizon VA reciprocal compensation for terminating what is disguised as a local call when, in fact, it is an interexchange call for which it should be paying originating access to Verizon VA. The CLEC claims that the call is local, based on the identified NPA-NXX's of the calling and called parties rather than the physical location of those parties.

This scheme of manipulating number assignments, where the NPA-NXX has no geographic relevance to the customer's physical location, allows the CLECs to provide their customers with extensive virtual local networks and collect reciprocal compensation revenues. Verizon VA, on the other hand, shoulders the entire cost of transporting these interexchange calls and is charged for terminating the calls to boot. Historically, this problem has been further compounded by the fact that the customers to whom the CLECs often assign the virtual NXX's are ISPs or other convergent traffic customers who generate enormous amounts of one-way, incoming traffic.

This blatant arbitrage of the number assignment system disassociates the true costs of providing these types of arrangements from the revenues the services generate. In today's market, the industry seeks to utilize telephone numbering resources in the most efficient manner possible. Schemes such as this one, driven by an inequitable distribution of the respective costs and benefits, will inevitably lead to misuse and misassignment of valuable numbering resources. Thus, the Commission cannot allow this situation to continue without the necessary adjustments to the economic incentives and compensation mechanisms.

Q. HAVE ANY STATE COMMISSIONS RULED ON THIS ISSUE?

A. Yes. In several states, this issue has been addressed in some fashion by the Commissions. These states have all have recognized the inequities involved. To date, no state has agreed with the CLEC's position.

Q. WHAT ARE THE STATE COMMISSIONS' FINDINGS?

A. In a proceeding in Maine involving Brooks Fiber/WorldCom's use of 54 of the 55 codes assigned to it as virtual NXXs, the Public Utilities Commission ("PUC") ruled that calls to virtual NXXs are not local but, rather, are interexchange. The Maine PUC found that Brooks had no customers and no facilities (*i.e.*, loops) to serve customers outside of the Portland, Maine exchange, in which its switch and its ISP customers were located. It found that the only customers located in the 54 other exchanges were actually Verizon's customers calling Brooks' ISPs. As a result, it ordered Brooks to return all of its codes except the one assigned to the Portland exchange. *See* June 30, 2000 and November 14, 2000 Orders in Maine Docket Nos. 98-758 and 99-597.

Recently, the Connecticut Department of Public Utility Control ("DPUC") came to the same conclusion in a similar virtual FX case. In that case, the DPUC stated:

> All CLECs have been afforded the opportunity to establish their own local calling areas (LCAs) in Connecticut. Nevertheless, most if not all CLECs have not taken advantage of that option and instead, have chosen to mirror the Telco's LCAs In the opinion of the Department, these CLECs have made a decision to mirror the Telco's LCAs and offer their subscribers large local calling areas via FX service. The Department takes no issue with the carrier's use of FX service in this manner. However, **the Department finds the carriers' requests for compensation in these cases disingenuous at best** in light of the FCC and Department rulings (including defining their own local calling areas) and their ability to deploy facilities to make these calls truly local and eligible for mutual compensation. **The purpose of mutual compensation is to compensate the carrier for the cost of terminating a local call and since these calls are not local, they will not be eligible for mutual compensation.** Therefore, the Department will require in those cases where a CLEC offering FX service which chooses to mirror the Telco's LCA, that such FX service calls not be eligible

> for compensation. **Rather, this interexchange traffic will be subject to the payment of originating switched access charges to the ILEC, in this case the Telco.**

See Connecticut DPU Draft Decision in Docket No. 01-01-29 at 22, issued March 19, 2001. (Emphasis added). In fact, the DPUC ordered CLECs to provide all data necessary for the calculation of a true-up. The true-up will not only refund the reciprocal compensation paid on virtual FX arrangements but will also allow the Telco to bill originating access charges.

In another ruling, the Public Service Commission ("PSC") of Missouri recently decided that calls originated by Southwestern Bell Telephone Company's ("SBC") customers to AT&T Communications of the Southwest, Inc.'s virtual FX customers should be considered long distance and, therefore, not subject to reciprocal compensation. AT&T had asked the PSC to categorize such traffic as local. *See* Missouri PSC Decision in Docket No. TO-2001-455 Order dated June 14, 2001.

In the Texas generic SBC arbitration, the Texas PUC ruled that reciprocal compensation only applies to traffic within originating customer local calling area. *See* Texas PUC Docket No. 21982 Order dated July 13, 2000.

The North Carolina PUC recently issued an arbitration ruling requiring AT&T to compensate Bell South for transport that extend beyond the Bell South local calling area back to the point of interconnection ("POI"). *See* North Carolina Utilities Commission, Docket No. P-140 Sub 73 and P-646 Sub 7.

Finally, and most recently, the Georgia PSC concluded earlier this month that foreign exchange traffic is long distance and, therefore, subject to access charges. *See* Georgia Public Service Commission Docket No. 13542-U.

Q. ARE THERE ANY OTHER STATE PROCEEDINGS CURRENTLY UNDERWAY THAT WILL ADDRESS THESE ISSUES?

A. Yes. In Florida, the PUC included the issues pertaining to intercarrier compensation for virtual NXX's in its Docket No. 000075-TP Phase II. Hearings on these issues were to be held in July 2001.

Q. WHAT DOES VERIZON VA PROPOSE THAT THE COMMISSION DO WITH RESPECT TO THIS ISSUE IN THIS DOCKET?

A. Verizon VA urges the Commission to reject the CLEC's proposals that would authorize this unfair practice. Instead, the Commission should find in this arbitration that the actual location of the calling and called parties, not the telephone number that a LEC chooses to assign to its customer, determine whether a directly dialed seven or ten digit call is interexchange traffic or local exchange traffic. Verizon VA should assess originating access charges for these interexchange calls. Alternatively, the terminating carrier should be required to pay the transport costs incurred by Verizon VA in carrying this interexchange traffic to the terminating carrier's interconnection point. At a minimum, however, the Commission should bar the assessment of reciprocal compensation for this interexchange traffic, unless and until this Commission decides the issue in its pending NPRM.

Q. HAS VERIZON VA PROPOSED INTERCONNECTION AGREEMENT LANGUAGE WHICH ADDRESSES THIS POINT?

A. Yes. The Commission should adopt the language in Verizon's Model Interconnection Agreement: § 2.58 of the Terms and Conditions Section, defining "Local Traffic," and §7 of the Interconnection Attachment, regarding Reciprocal Compensation Arrangements.

IV. <u>ISSUE V-8: MEET POINT TRAFFIC</u>

Q. PLEASE DESCRIBE THE DISPUTE IN ISSUE V-8.

A. The dispute over this issue involves the distinction between a meet point billing arrangement, which involves the interconnection of two LEC networks in the joint provisioning of access traffic to an IXC, and the interconnection of a LEC's network with a competitive access tandem provider's network.

Q. WHAT IS VERIZON VA'S POSITION REGARDING ISSUE V-8?

A. Verizon VA is entitled to access charge compensation when Verizon VA interconnects with AT&T serving as the competitive access tandem provider ("CAP") for interexchange carriers.

Q. DOES VERIZON VA AGREE WITH AT&T'S PROPOSED LANGUAGE ON THIS ISSUE?

A. No. Verizon does not agree to the inclusion of AT&T's proposed language. There is a major difference in the rules and application of access charges between, on the one hand, a meet-point billing arrangement involving the interconnection of two LEC networks in the joint provisioning of access traffic to an IXC, and, on the other hand, the interconnection of a LEC's network with a competitive access tandem provider's network. AT&T either misunderstands this difference or is attempting to obscure it.

Q. COULD YOU PLEASE EXPLAIN IN MORE DETAIL THE DIFFERENCES?

A. Yes. In the former case, two LEC's are involved in the joint provisioning of switched access service to an IXC. In such situations, one LEC has *chosen* to have its end office(s) subtend the other LEC's access tandem for the delivery of switched access traffic to and from IXCs to the subtending LEC's end users. The joint provisioning comes from the fact that the two LECs each provide a portion of the access service to an IXC, and absent that arrangement, the IXC would not be able to provide service to the subtending LEC's end users without establishing a direct connection to each of the subtending LEC's end offices. The choice of whether to subtend another LEC's access tandem is up to each LEC. Generally, if not exclusively, the reasons a LEC chooses to have its end office(s) subtend the tandem of another LEC are either the first LEC does not have a tandem or, because of location, it would not be economical to have the end office subtend its own tandem.

In the case of a competitive access tandem provider, an IXC chooses to access the LEC's network via a CAP, rather than connecting through the LEC's tandem. This is not a joint provisioning of access arrangement as with two LECs; it is the interconnection of a LEC's network with a CAP's interexchange network. Unlike the former arrangement, in this situation one LEC (*e.g.*, Verizon VA) has the ability to provide service to the IXC for traffic to and from its end users, but the IXC has chosen to use a CAP rather than the LEC to provide a portion of the interexchange access service. While this is an acceptable arrangement, it involves no LEC-to-LEC meet-point billing. Rather, in this situation, Verizon VA would assess the appropriate access charges to the CAP, rather than to the IXC, for the access services used in interconnecting the CAP's network with Verizon VA's network.

Q. COULD YOU PLEASE DESCRIBE LEC-TO-LEC MEET-POINT BILLING?

A. Yes. Services provided to IXCs are covered by the terms, conditions and rates contained in LEC and CLEC access tariffs. LECs and CLECs do not assess each other access charges associated with the joint provision of access services to IXCs. Rather, the charges are levied by each LEC to the IXC, based on the services each company provides to the IXC. This "meet point billing" arrangement has been in the ILECs' tariffs since divestiture, covering the application of access charges when service is jointly provided to an IXC by more than one LEC.

Under a standard meet point arrangement for the provision of access services to an IXC when more than one LEC is involved, the IXC interconnects with only one of the LECs' access tandems. That LEC interconnects with the other LEC and transports the call to the second LEC's end office. Thus, only one access tandem is used in such arrangements.

By way of example, in a typical switched access joint provisioning/meet point arrangement, the Point of Presence ("POP") of the IXC is located in the serving area of LEC #1 and the end user is located in the serving area of LEC #2. The IXC connects to an access tandem in LEC #1's operating area. LEC #1 assesses access charges to the IXC, based on its access tariff, for LEC #1's facilities (entrance facilities and transport) from the POP to the access tandem, for the use of the access tandem, and for transport from the access tandem to the "meet point" location with LEC #2. LEC #2 assesses access charges to the IXC from that meet point to the end office serving the end user, for the use of the local end office switch and for the use of the common line facilities from the end office to the end user premises.

In this manner, each LEC receives compensation from the IXC for the facilities/services provided to and used by the IXC. Neither LEC uses the facilities or services of the other LEC and, therefore, there is no need or rationale for any reciprocal arrangement. This is not local traffic and there are no costs to recover from either LEC.

Q. HOW DOES AT&T'S APPROACH DIFFER FROM THIS WELL-SETTLED STANDARD?

A. AT&T appears to be arguing that it should be allowed to provide competitive tandem access service to an IXC and then interconnect with a Verizon VA access tandem. As described above, although such an arrangement is permissible under Verizon VA's access tariffs, it is not a meet-point arrangement between two LECs. Rather, the company that is providing the tandem access service to the IXC in such an arrangement is a CAP, not a LEC/CLEC. The transport facilities from Verizon VA's end offices to the AT&T tandem in this situation would not be "jointly provided" transport services involving two LECs, but rather Direct Trunk Transport ("DTT") services provided by Verizon VA to the AT&T competitive tandem. This service arrangement is available in the interstate access tariff today. *See*, Verizon Tariff F.C.C. No. 1, § 6.1.2a (effective April 28, 2001). AT&T is simply trying to cloud a straight-forward situation.

In such situations, it is the CAP (in this case, AT&T as the alternative tandem provider) that would order switched access services from the LEC (*i.e.*, Verizon VA) for the interconnection of the CAP's network with the LEC's network. For all intents and purposes, the CAP's point of interface with the LEC is designated as the CAP's POP, and the CAP appears as the interexchange customer of record to the LEC. The CAP would bill the IXC for any services that it provides to the IXC, and the LEC would bill either the CAP or the IXC for the switched access services that it provides, depending upon the billing arrangement between the CAP, IXC and LEC.

The alternative tandem service that AT&T proposes is similar to other interexchange services that have been provided by other competitors. For example, competitors can, and do, arrange with IXCs to have their access traffic routed to the competitors' tandem from Verizon VA's network. Using the Carrier Identification Parameter ("CIP") feature, access traffic for multiple IXCs can be routed from Verizon VA end users to a single competitor's tandem switch location, either directly from Verizon VA's end offices or via a Verizon VA tandem. Verizon VA bills the competitive tandem provider for the transport facilities and other services it provides, and the competitive tandem provider bills the IXCs for the use of its network facilities. There is no meet-point billing involved. This access arrangement between a LEC and interexchange service provider is, essentially, the same as what AT&T is proposing.

Q. IN THE INTERCONNECTION ARRANGEMENT PROPOSED BY AT&T, WHAT CHARGES SHOULD APPLY?

A. In the AT&T CAP situation, Verizon VA must be able to assess access charges to AT&T, or whomever directly interconnects with the Verizon VA network, for the use of Verizon VA's transport services associated with interexchange traffic. Assuming that AT&T would connect its interexchange tandem directly to Verizon VA's end offices, and further assuming that Verizon VA would provide all of the facilities from that end office to the AT&T tandem location; the following charges would apply to the facilities/services provided to AT&T:

Entrance Facilities Charges - Monthly, flat-rated charges for the facilities from the serving wire center ("SWC") of the AT&T POP to the point of interconnection in the AT&T POP. The actual charges would depend on the type of connection (e.g. DS1 or DS3) and term discount plan ordered by the customer.

Multiplexing Charges - Monthly, flat-rated charges for any multiplexing service(s) required and ordered when lower speed transport services (e.g. DS1) are multiplexed onto higher-speed services (e.g. DS3) at the request of the customer.

Direct Trunk Transport - Monthly flat-rated charges (fixed and per mile) for the dedicated facilities provided to AT&T from the SWC of the AT&T POP to the various Verizon end offices.

Dedicated End Office Port Charges - Monthly flat-rated charges for the end office switch ports used to terminate the switched access trunks dedicated to AT&T in each end office.

End Office Switching Charges - Per minute of use ("MOU") charges assessed to originating and terminating interexchange (access) traffic.

Q. IF AT&T'S PROPOSAL WERE ADOPTED, WHAT CHARGES WOULD APPLY?

A. If, in this situation, AT&T were to be deemed to be a CLEC and the meet-point tariff provisions were to apply, the rates and charges that would be applicable to AT&T are as follows:

Tandem Switched Transport ("TST") Charges - TST Termination (per MOU) and Facility (per MOU/mile) charges would apply from the various end office(s) to the "meet point" with AT&T, presumably the point of interconnection at its access tandem location.

Shared End Office Port Charges - Per MOU charges associated with the end office switch ports used to terminate the switched access trunks/traffic to/from AT&T's network in each end office.

End Office Switching Charges - Per MOU charges assessed to originating and terminating interexchange (access) traffic.

Q. WHAT COSTS DOES AT&T SEEK TO AVOID BY MISCHARACTERIZING THIS AS A MEET POINT BILLING ARRANGEMENT?

A. AT&T is seeking to avoid paying the appropriate dedicated switched access charges. Verizon VA has a "meet point" with all of its customers, that is the point of interconnection with the customer's network. This is true whether the customer is an end user, a CLEC, an independent Telco, a Wireless provider or an IXC. Nonetheless, the "meet point billing" provisions in the tariff are limited to a situation where two LECs are involved in the joint provisioning of access to an IXC, and the IXC could not access one of the LECs end users absent that arrangement (*e.g.* one LECs end office subtends another LECs access tandem).

This is not the case with the AT&T proposal. Other IXCs can access Verizon VA's end users in Virginia via Verizon VA's access tandem or via direct connections to Verizon VA end offices. There is no necessity for meet point billing. What AT&T is proposing is an arrangement between an IXC and a LEC.

AT&T would be the access customer to Verizon VA in that case, not the individual IXCs. Accordingly, AT&T should pay the full charges for the access services it is using.

V. ISSUE VII-8: MEET POINT TRAFFIC

Q. CAN YOU SUMMARIZE THE NATURE OF THE DISPUTE WITH REGARD TO THIS ISSUE?

A. Yes. Issue VII-8 raises the question of whether AT&T should be permitted to pay the end office rate, rather than the tandem rate, for delivery of traffic to Verizon VA's tandem. Verizon VA takes the position that AT&T should not be able to do so and thereby avoid paying its fair share of the transport costs involved.

Q. WHAT IS THE DIFFERENCE BETWEEN A TANDEM RATE AND AN END OFFICE RATE?

A. A tandem connects end office traffic to other end offices, ILECs, and IXCs. An end office, in contrast, connects to end users. The tandem rate, which is a composite rate, is higher than the end office rate because of the additional switching and transport costs involved.

Q. WHAT DETERMINES WHETHER A PARTY PAYS RECIPROCAL COMPENSATION BASED ON THE TANDEM RATE OR THE END OFFICE RATE?

A. The party originating a local call should pay reciprocal compensation at a tandem rate or end office rate, depending upon where the call is delivered to the receiving party. Section 251(b)(5) of the Act clearly calls for reciprocal compensation based upon "the transport and termination of telecommunications." The end office rate only compensates the receiving party for end office switching. If an originating party delivers traffic to the tandem, the end office rate will not compensate the receiving party for the additional functions performed by the tandem switch and associated transport. The tandem rate, which includes both switching and transport components, would compensate the receiving party for these additional functions when terminating the traffic via the tandem and end office.

Q. DOES VERIZON VA OPPOSE AT&T's PROPOSED CONTRACT LANGUAGE?

A. Yes. In its proposed contract language, AT&T strives to pay the end office rate for delivery of traffic to Verizon's tandem and, thereby, avoid paying its fair share of transport costs that are part of the tandem rate. AT&T attempts to cloak this intent by couching its reciprocal compensation language in terms of trunks used to deliver traffic. The type of trunk used does not determine the costs incurred by the receiving party. In proposing its language, AT&T attempts to avoid paying the transport portion of reciprocal compensation and attempts, instead, to foist those costs onto Verizon VA.

Q. HAS THE COMMISSION SPOKEN TO THIS ISSUE BEFORE?

A. Yes. In the Local Competition Order, the Commission provided that reciprocal compensation should compensate the terminating carrier for the cost of both the transport and termination of the local traffic. "Section 252(d)(2) states that, for the purpose of compliance by an incumbent LEC with Section 251(b)(5), a state commission shall not consider the terms and conditions for reciprocal compensation to be just and reasonable unless such terms and conditions both: (1) provide for the mutual and reciprocal recovery by each carrier of costs associated with the transport and termination on each carrier's network facilities of calls that originate on the network facilities of the other carrier, and (2) determine such costs on the basis of a reasonable approximation of the additional costs of terminating such calls."

The Commission specifically decided to "treat transport and termination as separate functions — each with its own cost." The Commission defined transport for purposes of § 251(b)(5), "as the transmission of terminating traffic that is subject to section 251(b)(5) from the interconnection point between the two carriers to the terminating carrier's end office switch that directly serves the called party (or equivalent facility provided by a non-incumbent carrier)." The charges for transport should reflect the cost of the particular provisioning method of transport. Termination, on the other hand, was defined "as the switching of traffic that is subject to section 251(b)(5) at the terminating carrier's end office switch (or equivalent facility) and delivery of that traffic from that switch to the called party's premises."

Q. WHAT DOES VERIZON VA PROPOSE THAT THE COMMISSION DO WITH RESPECT TO THIS ISSUE?

A. Given the clear language of the Local competition Order, the Commission should reject AT&T's proposed language.

VI. ISSUE III-5: TANDEM RATE

Q. PLEASE SUMMARIZE THE DISPUTE OVER THIS ISSUE.

A. The dispute over this issue focuses on the appropriate reciprocal compensation rate for local traffic that does not pass through a CLEC tandem. Verizon VA maintains that the CLEC should not receive the higher tandem-switched rate but, rather, should receive the lower end-office rate for traffic routed directly to the CLEC's end-office. In other words, if the CLEC's network and service are such that its costs are lower, the CLEC's compensation should be lower. Moreover, in connection with design of the network, if interconnection is such that CLEC traffic is not routed through a tandem, then the CLEC should not receive a tandem-switched rate.

Q. WHAT IS THE DIFFERENCE BETWEEN CONNECTING TO A TANDEM AND CONNECTING TO AN END OFFICE?

A. A tandem connects end office traffic to other end offices, ILECs, and IXCs. Thus, connecting at a tandem provides a CLEC with access to the end offices, ILECs and IXCs. An end office, in contrast, connects to end users only. Thus, connecting to an end office only provides a CLEC with access to the end users.

The resulting effect on rates is that the tandem rate is higher than the end office rate, because of the additional switching and transport costs involved. A CLEC can avoid paying an ILEC tandem rate, however, by interconnecting directly at the end office. Verizon VA merely seeks comparable interconnection choices, so that it can control its own costs by bypassing the tandem rates of CLECs.

Q. WORLDCOM AND AT&T PROPOSE THAT WHERE THE GEOGRAPHIC COVERAGE OF THE CLEC'S SWITCH IS COMPARABLE TO THAT OF A VERIZON VA TANDEM, THE CLEC SHALL BE ENTITLED TO RECIPROCAL COMPENSATION AT THE TANDEM RATE. PLEASE EXPLAIN THE PROBLEMS WITH THAT PROPOSAL.

A. WorldCom and AT&T contend that they are entitled to the tandem switching rate element because their switches provide the geographic coverage of Verizon VA's tandems. They overstate the facts. CLECs should be required to demonstrate actual functional and geographic comparability for each of their switches, and should not receive tandem switching rates unless each switch actually serves a geographically dispersed customer base. Even if the CLECs demonstrate that their switches meet the tandem criteria, Verizon VA is still unable to take advantage of a lower end office rate by bypassing the tandem and connecting directly to the CLECs' end office switch.

Q. HAS THE COMMISSION SPOKEN ON THIS ISSUE?

A. The Commission has amended 47 CFR §51.711(a)(3) to require that the "comparable geographic area test be met before carriers are entitled to the tandem interconnection rate for local call termination." Further, in the Intercarrier Compensation NPRM, the Commission requested comment on its current tandem-rate rule and whether that rule creates an opportunity for regulatory arbitrage. Verizon VA's proposal satisfies the Commission's current rule but eliminates the opportunity for regulatory arbitrage by placing the burden on the CLECs to prove that their switches *actually* serve a geographically dispersed area, as opposed to simply claiming that their switches *may eventually* serve a geographically dispersed area.

Q. WHAT DOES VERIZON VIRGINIA PROPOSE THAT THE COMMISSION DO WITH RESPECT TO THIS ISSUE?

A. Verizon VA proposes that the Commission follow the lead of the Texas PUC, which recently addressed these issues. The Texas PUC concluded that for a

CLEC that does not have a "hierarchical, two-tier switching system [*i.e.*, end-office to tandem to end-office] to receive reciprocal compensation for performing tandem functions, the CLEC **must demonstrate that it is actually serving** the ILEC tandem area using tandem-like functionality, instead of just demonstrating the capability to serve the comparable geographic area." (Emphasis added).

Even if the CLECs demonstrate that their switches meet the tandem criteria, Verizon VA is still unable to take advantage of a lower end office rate by bypassing the tandem and connecting directly to the CLECs' end office switch. The clear intent of the Act is to promote full and fair competition and encourage facilities-based competition. "Mutual and reciprocal" does not necessarily mean identical; however, it does require an underlying fairness. Thus, the Commission should adopt Verizon VA's proposal for an average rate for termination of Verizon VA traffic at a CLEC switch where the CLEC employs a single tier interconnection structure.

Q. CAN YOU EXPLAIN HOW THAT PROPOSAL WORKS?

A. Yes. If a CLEC demonstrates that it employs a single-tier interconnection structure (*i.e.* the CLEC switch performs tandem and end office functions within the same switch), then Verizon VA proposes that the reciprocal compensation rate the CLEC charges Verizon VA should be the average rate charged by Verizon VA to the CLEC for call termination during the previous calendar quarter. For example, if a CLEC sends half of its traffic to the Verizon VA tandem and half to Verizon VA end offices, then the CLEC would charge Verizon VA at an average rate calculated by combining 50% of the tandem rate and 50% of the end office rate.

Q. HAS VERIZON VIRGINIA'S AVERAGE RATE PROPOSAL BEEN ADOPTED IN ANY OTHER PROCEEDINGS?

A. Yes. The Pennsylvania PUC adopted this proposal for an average rate for termination of Bell Atlantic's traffic at a CLEC switch, where the CLEC employs a single tier interconnection structure. *Application of MFS Intelenet of Pennsylvania, Inc., et al.*, Pennsylvania PUC, Docket Nos. A-310203F0002, A-310213F0002, A-310236F0002 and A-310258F0002, 1997 Pa. PUC LEXIS 50 (April 10, 1997).

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Declaration of Steven J. Pitterle

I declare under penalty of perjury that I have reviewed the foregoing panel testimony and that those sections as to which I testified are true and correct.

Executed this 26th day of July, 2001.

Nancy J. Bromley

Nancy J. Bromley
On behalf of
Steven J. Pitterle

Declaration of Pete D'Amico

I declare under penalty of perjury that I have reviewed the foregoing panel testimony and that those sections as to which I testified are true and correct.

Executed this 26th day of July, 2001.

Pete D'Amico